

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Joint Application of Cypress Ridge Sewer Company (U311S) and CSWR-California Utility Operating Company, LLC, for an Order Authorizing Cypress Ridge Sewer Company to Sell its Sewer Facilities to CSWR-California Utility Operating Company, LLC, and for a Certificate of Public Convenience and Necessity for CSWR-California Utility Operating Company, LLC, to Provide Sewer Service.

A.23-01-____
(Filed January 5, 2023)

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CSWR-CALIFORNIA UTILITY OPERATING COMPANY, LLC, FOR AN ORDER
AUTHORIZING CYPRESS RIDGE SEWER COMPANY TO SELL ITS SEWER
FACILITIES TO CSWR-CALIFORNIA UTILITY OPERATING COMPANY, LLC, AND
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR CSWR-
CALIFORNIA UTILITY OPERATING COMPANY, LLC, TO PROVIDE SEWER
SERVICE**

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January 5, 2023

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I. INTRODUCTION

Pursuant to Sections 851 and 1001 of the California Public Utilities Code and Rule 2.1, 3.1 and 3.6 of the California Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure (“Rules”), Cypress Ridge Sewer Company (“Cypress Ridge”) and CSWR-California Utility Operating Company, LLC, (“CSWR-California”) (together, the “Applicants”) file this Joint Application for an order authorizing Cypress Ridge to sell its sewer facilities to CSWR-California and for a Certificate of Public Convenience and Necessity (“CPCN”) for CSWR-California to provide sewer service to the customers served by Cypress Ridge.

II. SPECIFIC RELIEF REQUESTED

Provided the Commission approves this Joint Application, CSWR-California’s acquisition of Cypress Ridge’s sewer facilities will occur pursuant to the *Amended and Restated Agreement for Sale of Utility System* (“Agreement”) entered into on September 1, 2022, among

Cypress Ridge, a California regulated sewer corporation, and Kathleen M. Baker, successor trustee of the Baker Living Trust, as sellers, and Central States Water Resources, Inc. (“Central States”), a Missouri corporation, as the buyer.¹ The Baker Living Trust is the current owner of the real property on which the Cypress Ridge sewer system assets operate. The Baker Living Trust does not currently charge Cypress Ridge or its customers any cost for use of that real property. Under the Agreement, Central States will acquire both the tangible sewer system assets of Cypress Ridge and the associated real property assets of the Baker Living Trust upon closing of the proposed transaction. A copy of the Agreement is **Attachment 1** to this Joint Application. In accordance with Section 20 of the Agreement, Central States assigned its rights in the Agreement to CSWR-California. A copy of the Assignment of Rights is **Attachment 2** to this Joint Application.

This Joint Application asks the Commission to approve the terms and conditions of the Agreement and the transaction contemplated in the Agreement, and to grant CSWR-California a CPCN so that CSWR-California may assume all public utility responsibilities for operation and ownership of sewer utility operations in Cypress Ridge’s current service area. Specifically, Applicants request Commission authority:

1. Approving the terms and conditions of the Agreement.
2. Granting CSWR-California a CPCN so that it may assume the public utility responsibilities for the operation and ownership of the sewer utility operations of Cypress Ridge’s current service area.
3. Relieving Cypress Ridge of its public utility responsibilities following completion of the transaction.
4. Authorizing CSWR-California to continue to charge the rates currently in place under Cypress Ridge’s existing tariffs at the completion of the transaction.

¹ As discussed below, Central States is the designated manager of CSWR-California.

5. Grant any such additional relief as the Commission deems proper and in the public interest.

III. THE PROPOSED TRANSACTION

A. Cypress Ridge

Cypress Ridge is a Commission-regulated sewer utility providing service to 391 connections in San Luis Obispo County, California. Its principal place of business is 796 Cypress Ridge Pkwy, Arroyo Grande, CA 93420. Cypress Ridge owns and operates a sewer system consisting of the facilities described in the portion of the operating permit provided as **Attachment 3**.

Cypress Ridge was granted its existing CPCN in Decision (“D.”) 17-10-013, wherein the Commission also authorized the transfer of sewer utility assets from Rural Water Company, which had previously provided sewer utility service to the Cypress Ridge subdivision in San Luis Obispo County since 2002. Service is provided to approximately 390 residential and commercial sewer customers. The majority of customers are full-time residents, with a mixture of retired and working individuals. Cypress Ridge is a California corporation. Its articles of incorporation were previously filed with the Commission in connection with Application 15-08-025.

Cypress Ridge was formerly owned by Charles M. Baker. Since his passing, Mr. Baker’s widow, Mrs. Kathy Baker, is not interested in continuing to own and maintain a sewer utility. Therefore, Mrs. Baker is looking to divest herself of various business commitments since her husband’s passing, including through entering into the proposed sale of Cypress Ridge’s sewer utility assets.

Cypress Ridge’s balance sheet and income statement is provided as **Attachment 4**.

B. CSWR-California

CSWR-California is a California limited liability company, and its principal place of business is 1630 Des Peres Rd., Suite 140, Des Peres, MO 63131. Its articles of organization are provided as **Attachment 5**. CSWR-California’s qualification to conduct business in California is provided as **Attachment 6**. CSWR-California is a subsidiary of CSWR, LLC (“CSWR”), a

Missouri limited liability company, which currently owns and operates water and wastewater utility systems in ten (10) states (Arizona, Missouri, Texas, Arkansas, Louisiana, Kentucky, Mississippi, North Carolina, Florida and Tennessee). CSWR-California was formed for the purpose of acquiring, owning, and operating water and wastewater systems in California and operating those systems as regulated public utilities. Central States is the designated manager of CSWR, CSWR-California, and all their affiliated state utility operating companies.

CSWR and its affiliated state utility operating companies have a proven track record that demonstrates they have the technical, financial and managerial expertise to address both the short-term requirement for competent and professional operations and management expertise and the long-term infrastructure improvements needed for small systems like Cypress Ridge. These types of systems oftentimes have been in operation for several decades without any significant plant improvements to address environmental, health, and safety standards. Through its affiliation with CSWR, CSWR-California possesses the requisite technical, financial, and managerial capabilities to operate as a utility services provider. As previously noted, CSWR-affiliated companies currently operate water or wastewater systems in Arizona, Missouri, Arkansas, Kentucky, Mississippi, North Carolina, Louisiana, Tennessee, Florida and Texas. For each of the systems an affiliate currently owns or operates, CSWR provides the technical, managerial, and financial resources necessary to acquire and operate those systems. CSWR would continue to provide similar support for the Cypress Ridge system that CSWR-California proposes to acquire in this case. Currently, one in every four Americans is exposed to potentially unsafe drinking water or wastewater systems, and CSWR has built its reputation on acquiring distressed systems and replacing and/or building new infrastructure to address water quality, health and safety concerns.

C. Proposed Transaction

Under the Agreement, CSWR-California will acquire all of the assets associated with the sewer facilities of Cypress Ridge. For these assets, CSWR-California will pay \$385,790 as set

forth in the Agreement. The details of the proposed transaction are set forth in the Agreement attached as **Attachment 1**.

D. Rate Impact

There is no rate impact associated with the proposed transaction at this time, as CSWR-California is planning to adopt the same rates currently in place for Cypress Ridge customers.

IV. PUBLIC INTEREST AND CUSTOMER BENEFITS

Approval of this Joint Application is in the public interest and will benefit current and future customers in Cypress Ridge’s service area. Through its ownership by CSWR and its affiliation with similar water and wastewater utilities operating outside California, CSWR-California has the technical, financial, and managerial capability to make necessary improvements to the Cypress Ridge wastewater system to ensure safe, reliable and high quality service and full compliance with all applicable environmental, health, and safety regulations moving forward. This includes addressing any outstanding health and safety concerns at the Cypress Ridge facility. Additionally, CSWR-California’s customers will benefit from the company’s “Customer First” consumer services philosophy. The stated mission of CSWR and its affiliates is “to bring safe, reliable and environmentally responsible water resources to every community in the U.S.” The proposed transaction is a step toward achieving that objective. Additional information regarding the public interest and customer benefits of the proposed transaction are discussed in the **Direct Testimony of Josiah Cox**.

V. CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Rule 3.1 sets forth the application requirements for a CPCN. The Rule does not include specific requirements related to a CPCN for sewer service. Where applicable, the Applicants have provided information similar to that required of water utilities.

A. Description of Service Area

Service will be provided in Cypress Ridge’s existing service area, which is located in the Cypress Ridge subdivision in San Luis Obispo County. The area is a residential community in the northwest portion of the Nipomo Mesa in San Luis Obispo County, adjacent to the southerly

boundary of the City of Arroyo Grande and consists of approximately 380 homes, a golf course, community center, wastewater treatment plant and other facilities.

B. Service Area Map

A service area map is provided as Attachment 7.

C. Competition

The proposed service will not compete with any other sewer utility service.

D. Permits

No new permit obligations will result from the proposed transaction. Upon Commission approval of this Joint Application, the Applicants will work with the necessary governmental agencies to file for appropriate permit transfers.

E. Public Convenience and Necessity

Granting CSWR-California a CPCN so that it may assume the public utility responsibilities for the operation and ownership of the sewer utility operations of Cypress Ridge's current service area serves the public convenience and necessity. Further discussion regarding the need for the transaction and the benefits it provides are found in the Direct Testimony of Josiah Cox.

Under the Public Utilities Code, a utility seeking a CPCN must address community values, recreational and park areas, historical and aesthetic values, and the influence on the environment.² As a practical matter, "the review process established by [the California Environmental Quality Act ("CEQA")] is the primary vehicle for review of all §1002(a) issues except community values."³ Because, as discussed below, CEQA review is not required for this transaction, recreational and park areas, historical and aesthetic values, and the influence on the environment are not issues in this proceeding.⁴ The concept of "community values" can be somewhat fluid and the "issues that need to be considered can vary greatly depending upon the

² Pub. Util. Code §1002(a)

³ D.10-12-025, p. 6.

⁴ See D.18-12-020, p. 12.

nature of a project.”⁵ Applicants are not aware of any opposition to the transaction at this time. As discussed above and in the **Direct Testimony of Josiah Cox**, the Applicants believe that the proposed transaction will present many benefits to Cypress Ridge’s current customers.⁶

F. Financial Information

CSWR-California has the financial ability to provide the proposed service. Because it is a newly-formed limited liability company with no current assets or revenues, CSWR-California has no financial statements of its own at this time. A financial statement for its corporate parent CSWR is provided as a confidential attachment to the **Direct Testimony of Josiah Cox**.

G. Proposed Rates

Following completion of the proposed transaction, CSWR-California proposes to charge the same rates that are currently in place for Cypress Ridge customers. A copy of Cypress Ridge’s currently applicable tariff rates are included as **Attachment 8**.

H. General Order 104-A

None of the persons described in Section 2 of General Order 104-A has a material financial interests in any transaction involving the purchase of materials or equipment or the contracting, arranging, or paying for construction, maintenance work, or service of any kind of which the Applicants have been a party during the period subsequent to the filing of Cypress Ridge’s last Annual Report with this Commission or to which Applicants proposed to become a party at the conclusion of the year covered by said Annual Report.

I. Customer Requirements

Service is currently provided by Cypress Ridge to approximately 390 residential and commercial sewer customers. The Applicants are not aware of any existing plans for future development anticipated at this time. A description of the proposed facilities to be used to provide service to customers is included in **Attachment 3**.

⁵ D.10-12-025, p. 8.

⁶ th

J. Estimated Operating Revenues and Expenses

A statement of the estimated operating revenues and expenses for the Cypress Ridge system is included in **Attachment 9**.

K. Operating Plans

CSWR's technical resources and expertise have greatly improved the quality of service its utility operating affiliates are able to provide their respective customers in Arizona, Missouri, Texas, Arkansas, Louisiana, Tennessee, Mississippi, North Carolina, Florida, and Kentucky. CSWR has on staff engineers and other similarly qualified personnel with experience in the design and operation of water and wastewater systems and supplements those resources with qualified and licensed local contract operators who are responsible for day-to-day plant operations. Access to these and other resources available through its affiliation with CSWR would allow CSWR-California to achieve economies of scale not generally available to similarly sized water and wastewater utilities. If the Commission grants this Joint Application, CSWR would bring the same benefits it currently provides to customers outside California to customers currently served by Cypress Ridge.

CSWR-California has the financial capability necessary to acquire, own, and operate Cypress Ridge's system. CSWR has access to investment capital necessary to acquire small, often distressed, water and wastewater systems and make investments necessary to upgrade, improve, and maintain those systems so they can consistently provide safe and reliable service to customers. CSWR will supply equity capital used to acquire Cypress Ridge's assets, to fund initial capital upgrades and improvements, and provide necessary working capital. After the acquisition is completed, CSWR-California will determine if future system improvements will be funded by equity, debt, or a combination of both, with future debt capital to be obtained from commercial lending sources.

CSWR-California also has the managerial capabilities necessary to own and operate the Cypress Ridge system. Resumes of key CSWR personnel who would be closely involved with CSWR-California's operations are attached to the Joint Application as **Attachment 10**.

Information presented in those resumes demonstrates the considerable managerial and technical expertise and experience available to CSWR-California through its affiliation with CSWR. Additionally, if the Joint Application is approved, CSWR-California intends to hire a local, non-affiliated third-party Operations and Maintenance (“O&M”) firm that has knowledgeable and experienced personnel, carries required state licenses, and has insurance coverage necessary to manage daily wastewater operations at the system at issue in this case. It is an approach that CSWR’s affiliated utility operating companies have successfully employed at the water and wastewater systems they operate outside of California. Additional discussion of CSWR-California’s and CSWR’s qualifications to operate the Cypress Ridge system, including details about the proposed O&M firm arrangement, are including the **Direct Testimony of Josiah Cox**.

L. Original Cost and Depreciation Reserve

A detailed statement and basis of the original cost and depreciation reserve of the Cypress Ridge system is included as **Attachment 11**.

VI. SAFETY

CSWR-California is committed to the safety of its customers, the safety of its employees, and the safety of the community as a whole. CSWR intends to bring its excellent track record for safety in its affiliated utility operations in other states to its operation of the Cypress Ridge system through CSWR-California. CSWR-California will operate the Cypress Ridge system safely and in accordance with all applicable regulations, including ensuring that its third-party O&M contractor for the system is similarly in compliance.

VII. CEQA REVIEW IS NOT REQUIRED

Rule 2.4 of the Commission’s Rules requires applications to address the applicability of CEQA to the proposed project or transaction that is the subject of the application. The transaction described in this application is not subject to CEQA because it does not constitute a “project” within the meaning of CEQA. Projects under CEQA are those specifically defined as any “activity which may cause either a direct physical change [to] the environment, or a

reasonably foreseeable indirect physical change in the environment.”⁷ A proposed “activity [that] will not result in a direct or reasonably foreseeable indirect physical change in the environment” is not subject to CEQA.⁸ Similarly, where “it can be seen with certainty that there is no possibility that the [proposed] activity in question may have a significant effect on the environment, the activity is not subject to CEQA.”⁹

This Joint Application seeks Commission approval of the acquisition of assets from Cypress Ridge by CSWR-California. Critically, once sold and transferred, there will be no change in the operation of the assets from the customer perspective. They will be used and operated in the same manner and for the same purposes for which they are currently being used - to provide safe and reliable sewer service. The Commission has consistently held such a transfer of control and operation of existing water system facilities does not result in any changes to the environment, and thus, an application seeking authorization for such a transaction is not subject to CEQA.¹⁰ Here, also, because it is clear that no “direct or reasonably foreseeable indirect physical change in the environment” will occur as a result of the proposed transaction, it is not subject to the provisions of CEQA.

⁷ See Cal. Pub. Res. Code § 21065.

⁸ CEQA Guidelines at §15060(c)(2).

⁹ CEQA Guidelines at §15061(b)(3).

¹⁰ See D.13-01-033, *Application of California-American Water Company (U210W) and Garrapata Water Company (U212W) for an Order Authorizing Garrapata Water Company to Sell and California-American Water Company to Purchase the Assets of Garrapata Water Company*, Decision Approving the Application of California-American Water Company's Acquisition of Garrapata Water Company's Assets, pp. 8-9; D.11-03-016, *Application of Watertek, Inc. a California corporation (U420W) for Authority to Sell and Del Oro Water Co., Inc (U61W) for Authority to Buy the Watertek, Inc. Water Utilities (Grand View Gardens and East Plano) in Tulare County and (Metropolitan) in Fresno County*, Decision Conditionally Authorizing Douglas F. Elliot, Sole Owner DBA the Watertek Water Utilities, to Sell and Del Oro Water Co., Inc. to Buy Grand View Gardens, East Plano, and Metropolitan Water Systems, pp. 9-10.

VIII. COMPLIANCE

A. Communications Regarding the Joint Application

All communications and correspondence with Cypress Ridge should be directed to:

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B. Categorization and Schedule

Applicants request that the Commission classify this Joint Application as ratesetting.¹¹

The issue presented in the Joint Application is whether the proposed transaction is consistent with and not adverse to the public interest and whether the Commission should grant a CPCN to CSWR-California to provide sewer service.

¹¹ Although Applicants are not seeking a rate increase in this proceeding, under the Commission's Rules of Practice and Procedure the ratesetting categorization is used when a proceeding does not clearly fit into any of the Commission's categories. CPUC Rule 7.1(c)(2).

At this time, Applicants are unable to predict whether this Joint Application will be protested or whether there will be material factual disputed issues on which hearings should be held. If this matter is timely protested, Applicants respectfully request that the matter be set for a prehearing conference no later than 45 days from the date the Joint Application is filed, at which time a schedule can be proposed by the parties and approved by the Commission. Given the limited nature of this Joint Application, Applicants request that the Commission resolve this no later than July 2023.

C. Notice

While this application does not require a specific type of notice under the Commission's Rules, the Applicants will provide a notice of this application as courtesy to the current customers of Cypress Ridge. A draft notice is provided as **Attachment 12**.

IX. SUPPORT FOR APPLICATION

The Applicants provide the following attachments in support of the Joint Application:

- **Attachment 1** – *Amended and Restated Agreement for Sale of Utility System*
- **Attachment 2** – Assignment of Rights from Central States to CSWR-California
- **Attachment 3** – Operating Permit for Cypress Ridge System
- **Attachment 4** – Cypress Ridge Balance Sheet and Income Statement
- **Attachment 5** – CWSR-California Articles of Organization
- **Attachment 6** – CSWR-California Certificate of Status
- **Attachment 7** – Cypress Ridge Service Area Map
- **Attachment 8** – Cypress Ridge Current Tariff Rates
- **Attachment 9** – Estimated Operating Revenues and Expenses
- **Attachment 10** – Resumes of CSWR Personnel
- **Attachment 11** – Cypress Ridge Original Cost and Depreciation Reserve
- **Attachment 12** – Draft Customer Notice for Cypress Ridge Customers

The Applicants also intend to submit the **Direct Testimony of Josiah Cox** in support of the requests in this Joint Application.

X. CONCLUSION

For the reasons stated above, the Applicants request that the Commission approve the proposed transaction, grant a CPCN for CSWR-California to provide sewer service, and provide any other relief as may be necessary.

Respectfully submitted,

By: /s/ Jose E. Guzman, Jr.
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*Attorney for CSWR-California Utility
Operating Company, LLC*

January 5, 2023

VERIFICATION

I am an officer of Cypress Ridge Sewer Company and I am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information or belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.


Executed on December 28, 2022 at Arcata Grande, California.


Kathleen Baker

VERIFICATION

I am an officer of CSWR-California Utility Operating Company, LLC and I am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information or belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct. Executed on January 5, 2023 at St. Louis, Missouri.



Josiah Cox